

1Q20 Results Update

May 28, 2020

Recommendation	Neutral
Previous Recommendation	Overweight
Current Price (SAR)	8.5
Target Price (SAR)	8.2
Upside/Downside (%)	(3.5%)
<i>As of May 20th, 2020</i>	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	12.8
52-Wk High (SAR)	12.9
52-Wk Low (SAR)	6.77
Total Outstanding Shares (in mn)	1,500
Free Float (%)	65.0%

SAUDI KAYAN vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(1.2%)	1.0%
6m	(20.2%)	(5.0%)
12m	(31.7%)	(11.9%)

Major Shareholders (%)

Saudi Basic Industries Co.	35.0%
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Revenue (SAR bn) and Operating Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 20th May 2020

Lower average realized price and sales volume further contract Kayan's earnings in 1Q20

Kayan reported a net loss of SAR 517mn in 1Q20 compared with a loss of SAR 197mn in 1Q19 and SAR 167mn in 4Q19. The company's revenues contracted 25.8% YoY to SAR 1.9bn due to lower realized prices and sales volume. Average cost of sales remained high due to an increase in the price of feedstock that led to the company recording a gross loss of SAR 220.8mn compared with a gross profit of SAR 266mn a year ago. The company's performance was also impacted by the planned shutdown for scheduled maintenance. Despite lower SG&A expenses and a decline in financial charges, the company recorded a net loss in view of the reasons mentioned above.

Kayan's performance issues continued in 2020, as the average realized product prices continued to remain weak. In fact, in the preceding quarter, the company's problems were compounded by higher feedstock prices and lower sales volume. Kayan has struggled throughout FY19 to generate strong operating profits, which continued in 2020 with the company reporting an operating loss. Despite paring its debt, the debt-to-equity ratio still stands at 1.2x as of FY19. The outlook for the company looks bleak in view of the company's performance issues as well as the prevailing macro conditions, which may make it difficult for the company to record profits this year. The company's share price has seen a considerable fall in the past few months, which has been an industry trend. Thus, in view of the factors above, we change our rating to Neutral.

- Kayan's revenue declined by 25.8% YoY to SAR 1.9bn in 1Q20 compared with SAR 2.5bn in 1Q19 due to the decreased average selling price of products and lower sales volume. On a quarterly basis, revenues were down 16.5% QoQ.
- The company swung to a gross loss of SAR 220.8mn, compared with a gross profit of SAR 266mn in 1Q19, in the wake of higher feedstock costs and shutdown of most of the plants due to scheduled maintenance.
- The company managed to contain its SG&A expenses that declined by 22.3% YoY to SAR 130mn. However, due to the reasons mentioned above, Kayan reported an operating loss of SAR 351mn against an operating income of SAR 98mn in 1Q19 and SAR 40mn in 4Q19. As a result, the operating loss margin stood at (18.6%) compared with an operating profit margin of 3.9% in 1Q19 and 1.8% in 4Q19.
- EBITDA for the quarter fell 67.4% to SAR 220mn. Consequently, the EBITDA margin for the quarter lowered to less than half at 11.7% compared with 26.6% in 1Q19 and 25.0% in 4Q19.
- Kayan's net loss deteriorated to SAR 517mn in 1Q20 compared with the net loss of SAR 197mn in 1Q19 and SAR 167mn in 4Q19 in view of the reasons mentioned above, despite lower financial charges. The net loss margin widened to (27.4%) for 1Q20 vis-à-vis (7.8%) in 1Q19.
- In February 2020, the company completed its maintenance activity at the ethylene glycol and ethylene oxide units. In addition, it completed the periodic maintenance activity of other plants dependent on these products.

Valuation: We revise our target price downward to a fair value of SAR 8.2 per share. We revise our rating to Neutral on the stock.

	1Q'20	1Q'19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	1,888	2,544	(25.8%)	7,709	9,536	(19.2%)
Gross Profit (SAR mn)	(221)	266	NM	308	1,059	(70.9%)
EBITDA (SAR mn)	220	676	(67.4%)	1,863	2,663	(30.0%)
Net Profit (SAR mn)	(517)	(197)	161.7%	(934)	(637)	46.7%
EPS Basic (SAR)	(0.34)	(0.13)	161.7%	(0.62)	(0.42)	46.7%
Gross Margin (%)	(11.7%)	10.5%	NM	4.0%	11.1%	(7.1%)
EBITDA Margin (%)	11.7%	26.6%	(14.9%)	24.2%	27.9%	(3.8%)
Net Profit Margin (%)	(27.4%)	(7.8%)	(19.6%)	(12.1%)	(6.7%)	(5.4%)

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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